

Attorney Leads New Credit-Abuse Education Program

Bankruptcy Partner Hopes It Will Become Part of Curriculum for High School Students

By Geneva Whitmarsh

To earn a driver's license, teenagers must pass a series of tests to show they know what they're doing on the road. Receiving a diploma and being accepted to a good college means four years of school. But what does it take for an 18-year-old to receive a credit card?

"Nothing more than signing on the dotted line," says Sheppard, Mullin, Richter & Hampton bankruptcy partner Joel Ohlgren, who hopes that will change with the creation of a Credit Abuse Education Program.

The program will hopefully become part of the required economics curriculum for Santa Barbara high school students, he says, and there are plans to introduce the program to school administrators across the state.

"Everyone I talk to thinks this is a great idea," says Ohlgren, a member of the Santa Barbara Federal Bar Association, the group spearheading the effort. "It's like sex education — the kids really need it, but do they get it?"

"I think this is one of these things people assume kids are gonna know, but that's not always the case," he adds. "I'm lucky because I got this education at my mother's kitchen table. She used to say, 'See this furniture? I'm paying for it three times over because of the interest.' That stuck with me."

The program is inspired, in part, by a similar credit abuse program in Rochester, N.Y., and made all the more important, says Ohlgren, by pending bankruptcy legislation that will make it harder for people buried by credit card debt to wipe the slate clean.

Ohlgren and Santa Barbara independent consumer attorney Karen Grant took their idea to officials at the two high schools in Santa Barbara, then approached economics teachers for suggestions on how to incorporate the lessons into the curriculum.

"We spent a lot of time talking to the teachers," Ohlgren says. "At the end of the day, we want the teachers to do this."

Finally, with the backing of the Bankruptcy Judges of the Central District of California, including Judge Robin Riblet in Santa Barbara, Ohlgren and Grant got to work late last year scripting the program in a way that would appeal to young consumers.

The two attorneys began by watching a video of the classes in Rochester, which Ohlgren described as a lecture by a bankruptcy judge "filled with whispering and pencil dropping."

"Lecturing just doesn't work that well," says Ohlgren, who coached varsity football at Santa Barbara's Dos Pueblos High School, the same school where his son currently teaches ceramics. "This is the MTV generation."

The attorneys created quizzes, charts and visual aids that would clearly show their audience the perils of credit card debt, then put their work to the test by presenting to several high school classes last month.

"These kids have senioritis like you can't believe," says Ohlgren. "I told [the students] that the class has nothing to do with high school, that it's about what happens after you leave here, and that was the hook."

Ohlgren and Grant began the presentation by taking a credit card solicitation people typically receive in the mail, enlarging it and going through it line-by-line.

For example, Ohlgren says, the credit

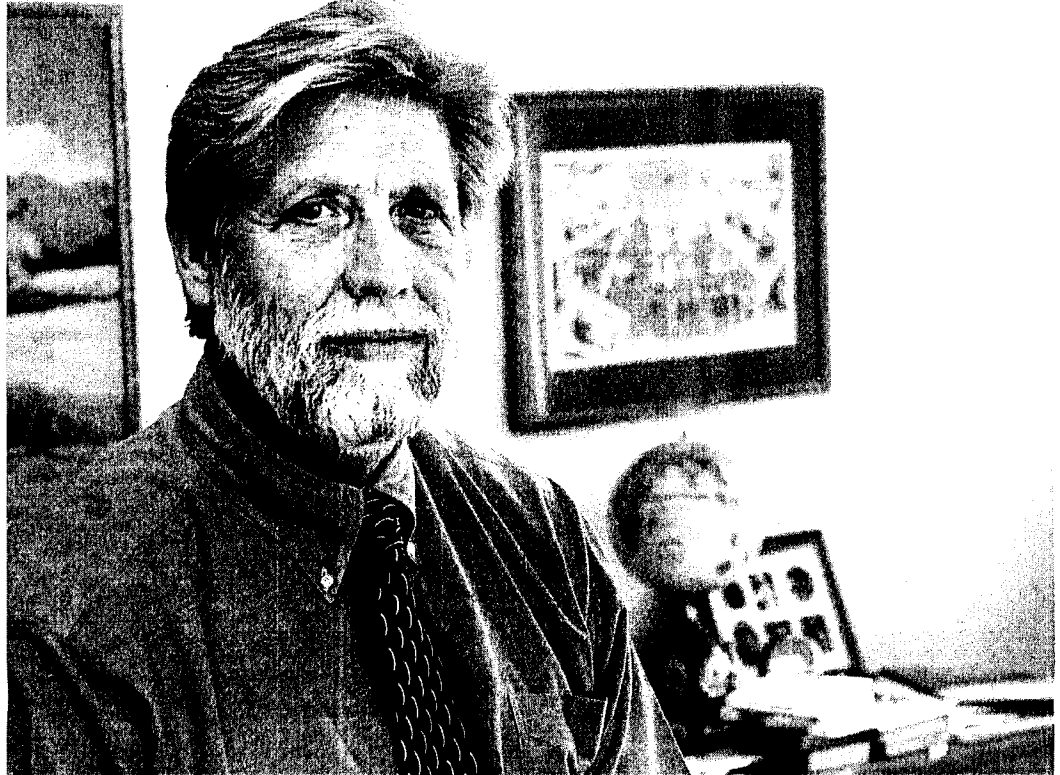


Photo by Hugh Williams

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card companies often promise zero percent fixed APR, written words often followed by a tiny asterisk.

"Follow the asterisk and it says, 'We reserve the right to change the APR at any time,' so really, there's nothing fixed about it."

The attorneys also took a \$7,000 credit card bill and showed the students that a consumer who routinely pays the minimum two percent payment on the balance will take over 50 years to pay the card off.

"They'd be paying the final payments with their Social Security, and that's assuming we still have Social Security then," Ohlgren says.

People often have a tendency, Ohlgren says, to pay the minimum credit card payment each month, while saving the remainder of their money for a "rainy day."

"But if you're paying a, say, 20 percent APR on that balance, the rainy day is now," he says.

Because of interest rates, a consumer who uses a credit card to buy a pair of jeans or tennis shoes on sale is actually paying more than 30 percent more on something they think they're getting a bargain on, he says.

"People are seduced [by the credit card companies] into thinking that if they have a credit card, they can have what they want when they want it," Ohlgren says. "But if these kids don't think about how they're going to pay back the money, they're in big trouble. And there comes a certain point when they won't have mom and dad to bail them out."

Ohlgren told the students that if a debtor

is late on a 50 cent payment, they'll be liable for an average of \$39 in late fees, then took a real-life budget of a person with \$100,000 in student loan debt and showed the mistakes he was making by eating out too often and purchasing a fancy car he couldn't really afford.

The students, Ohlgren says, were most surprised by what is known as cross-default. This means credit card companies can raise a debtor's interest rate when he or she fails to pay rent, utility bills or another credit card bill on time, regardless of whether they're receiving their scheduled payments.

And most credit cards do not have a typical billing cycle that ends or begins on the first or fifteen of the month.

"You might get a bill on the 8th or the 19th, and if the due date doesn't coincide with the day you pay bills, you might forget," Ohlgren says. "That's not coincidence."

And finally, Ohlgren warned the students not to rely on a grace period to pay a bill.

"The typical grace period is 20 days," Ohlgren says, "and that starts the day after the bill is mailed. So, if you want to avoid any late charges, you have to make sure you get the payment in before the end of those 20 days."

Students typically want to know how they will be directly affected by credit card debt, Ohlgren says.

"And that's easy," he says. "Thirty-eight percent of divorces are the result of financially difficulty, a large amount of people report depression because they don't know how to deal with their debt and a FICA

score, a complicated mathematical equation tracking your credit history, can effect getting an apartment, a job or even getting into graduate school."

The attorneys are now creating lesson plans for teachers, complete with a PowerPoint presentation. There are also plans to produce a DVD featuring actors from Santa Barbara City College and interspersed with catchy music.

Ohlgren and Grant are currently in talks with the American College of Bankruptcy and the Legal Aid Foundation of Los Angeles to expand the program out of Santa Barbara and into other cities throughout the country.

Today, they will show the Power Point materials, complete with a script for teachers, to a committee of the Bankruptcy Judges of the Central District of California.

"LAUSD is huge, and Santa Barbara is pretty small, so we targeted Santa Barbara because it's a small school district with less bureaucracy," Ohlgren says.

He says they will seek to distribute the materials, act as advisors and perhaps do demonstrations of teaching the materials, as well as use lawyers to contact their area schools and recommend that the material be taught.

"This is important," Ohlgren says. "Seniors in high school should be thinking beyond high school at this point."

"Every single thing they see on TV is designed to cost money, whether it be toothpaste, a new dress or a new car, and the message is that you should buy it on credit if you don't have the money. We want our message to be louder."